MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017 SESSION

BAC1634 – FINANCIAL ACCOUNTING REPORTING 1

(All sections / Groups)

08 March 2017
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 7 pages with 4 Questions only.
2. Attempt **ALL FOUR** questions. The distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

Part A

a) It is mandatory for companies to apply the approved accounting standards when preparing financial statement. Complies with MFRSs shall presume that its financial statements are fair presentation. However, some may have questioned and commented that the nature and quality of financial reporting can be determined by the marketplace. Some have even argued that additional accounting and disclosure standards would only distort a market mechanism that already works well and would add costs to the reporting mechanism, with no apparent benefit.

Required:

Explain why accounting standards are needed to help the market mechanism work effectively for the benefit of preparers and users of financial reports. (5 marks)

b) Explain the roles of regulatory bodies with reference to accounting practice. (5 marks)

Part B

Dietary Sdn Bhd specializes in catering balance diet healthy food for lunch and dinner from Monday to Saturday. They also provide delivery services around Cyberjaya area. Weekly or monthly orders must be made and paid five days in advance of delivery. Changes in the date of delivery or any cancellation must be made within 24 hours before the scheduled delivery. Cancellations made less than 24 hours are still considered as delivery. Refunds for cancellation will be made the following month, with a 10% cancellation fee. Food is delivered in special environmental friendly container. Customers are charged a deposit of RM50 for the container. The deposits are returned to the customers upon termination of services.

Required:

Comment by providing your justification whether the following recognition policies practised by Dietary Sdn Bhd are in line with the requirements of the conceptual framework:

a) Revenue from services is recognized five days before delivery. (2 marks)
b) Container deposits are recognized as revenue when payment is received from customers. (2 marks)
c) Cancellation fees are recognized as revenue while refunds made are recognized as losses. (2 marks)

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d) The environmental friendly containers were bought in bulks at a special discounted price of RM60 per container. Based on experience, the containers could be used for four years. Payments made to purchase container were recognized as expenses in the period they were incurred. (2 marks)

e) What are the two primary qualities that make financial information useful for decision-making? (2 marks)

(Total: 20 Marks)

QUESTION 2

Part A

a) Explain with an example the rule of Garner vs Murray. (3 marks)

b) Explain the purpose of revaluing assets before a partner retires from the partnership. (2 marks)

Part B

The Mewah Leisure Association was formed on 1 January 2015 and has the following receipts and payments account for the year ended 31 December 2016.

Receipts	RM	Payments	RM
Balance at bank 1 January 2016	19,500	Cafeteria supplies bought	21,600
Subscription received	225,300	Wages of cleaners	157,000
Profit from mini concert	20,580	Rent of building	43,500
Profit on exhibition	4,450	New fixtures and fittings bought	91,000
Cafeteria proceeds	81,450	Telephone and electricity	3,750
Sale of fixture and fittings	1,700	Building maintenance	5,750
		Balance at bank 31 December 2016	30,380
	352,980		352,980

The following addition information is available:

i. Subscriptions owing by members at 31 December 2016 is RM4,300.
ii. On 1 January 2016, the fixture and fittings was valued at RM162,000. Included in this figure was the fixture and fittings sold during the year for RM1,700. The cost of this asset was RM2,100.
iii. The amount to be charged for depreciation of fixture and fittings for the year is RM26,000. This is in addition to the loss on fixture and fittings sold during the year.
iv. Cafetaria inventories at 31 December 2015 were RM3,400 and at 31 December 2016 were RM4,600.

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v. The association decided to charge RM23,400 of the wages to cafeteria trading account and the remainder is to be charged to the income and expenditure account.

Required:

a) Prepare the cafeteria trading account for the year ended 31 December 2016. (3 marks)

b) Compute the accumulated fund of the association at 31 December 2016. (2 marks)

c) Prepare the income and expenditure for the year ended 31 December 2016 and a statement of financial statement as at that date. (10 marks)

(Total: 20 marks)

QUESTION 3

Part A

a) How entity should recognise and measure receivable in accordance to MFRS9 Financial Instruments. (2 marks)

b) Explain with an example the criteria to be fulfilled when an item is considered as a liability. (3 marks)

c) Zamrud Bhd's current year end is 31 December 2015. Its financial statements were authorised for issue by its directors on 6 March 2016 and the AGM (annual general meeting) will be held on 3 April 2016. The following matters have been brought to your attention by your senior auditor:

i. On 4 January 2016, the company's factory was destroyed by fire caused by sabotage. The factory was not insured sufficiently and the loss suffered from the fire was estimated to be RM650,000.

ii. During the first week of April 2016, the company held a 'sales' to clear the old inventories of 2015 Christmas goods and 2016 Chinese New Year goods, where all the goods were sold at 40% of cost. In early December 2015, the company purchased RM1,500,000 of Christmas goods and RM1,200,000 of Chinese New Year goods and as at 31 December 2015, RM225,000 of Christmas goods and all the RM980,000 goods were in the store. These goods were carried at cost and no provision has been made as at 31 December 2015.

iii. On 18 February 2016 the government announced tax changes which have the effect of increasing Zamrud Bhd's deferred tax liability by RM437,000 as at 31 December 2015.

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Note: assume all items are material and are independent of each other.

Required:

Assuming you are the audit manager, discuss whether the above post balance sheet events should be classified as 'adjusting' or non-adjusting' events and suggest appropriate accounting treatment in accordance to the MFRS 110: Events after the reporting period. (10 marks)

Part B

Harmony Bhd purchases a property comprises of a land and building at a cost of RM14,000,000 in 2010. The land portion accounts for RM2,800,000 of the purchase price. The building is depreciated on a straight line basis over 50 years, charging a full year's depreciation in the year of purchase and none in the year of disposal.

On 1 January 2014, Harmony Bhd has revalued the land and building. The company appointed an independent professional valuer to value both assets. The valuer places a valuation of RM27,000,000 on the property, of which RM5,600,000 is attributable to the land portion. The surplus is incorporated in the accounts.

Harmony Bhd derecognised the property in 2016 and sold it for RM25,000,000 cash.

Required:

a) Calculate the surplus arising on the revaluation of the property in 2014 and show the journal entry to incorporate the surplus. (6 marks)

b) Calculate the gain or loss arising on disposal of the property in 2016 and show the journal entries to record the disposal. (9 marks)

(Total: 30 Marks)

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QUESTION 4

Part A

On 1 January 2015, M&M Bhd's has in issue 8 million ordinary shares of RM1 each and 2 million 10% preference shares of RM2 million.

The following Statements of Profit or Loss and Statements of Changes in Equity were extracted from the books of M&M Bhd, a public listed company.

Statements of Profit or Loss for the year ended 31 December

	2015 RM'000	2016 RM'000
Turnover	8,000	10,000
Cost of Sales	(4,000)	(5,200)
Gross Profit	4,000	4,800
Operating Expenses	(1,400)	(1,600)
Profit before Tax	2,600	3,200
Income Tax Expense	(720)	(880)
Profit for the Year	1,880	2,320

Statements of Changes in Equity for the year ended 31 December

	2015 RM'000	2016 RM'000
Retained Profit b/d	8,600	9,832
Current Year Profit	1,880	2,320
Preference Dividend Paid	(72)	(216)
Ordinary Dividend Paid	(576)	(576)
Retained Profit c/f	9,832	11,360

Additional information:

- For the year ended 31 December 2015, M&M only paid two-third preference dividend and the remaining preference dividend was paid in the following year, together with the 2016 preference dividend.

- RM4,000,000 10% convertible debentures were issued on 1 January 2015. These debentures are convertible to 2,000,000 ordinary shares at any time up to 2018.

- On 1 July 2015, M&M Bhd made a rights issue of one (1) share for every five (5) shares held at a price of RM4.00 each. The market price of M&M Bhd's shares on 30 June 2015 was RM5.00 each.

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- RM1,200,000 of the 10% convertible debentures were converted into ordinary shares on 1 January 2016.

- Basic earnings per share for the year ended 31 December 2014 was RM0.18.

Required:

Calculate the basic and diluted earnings per share of M&M Bhd for the year ended 31 December 2015 and 2016. Restate the previous year's basic earnings per share where applicable. (15 marks)

Part B

Hi-Way Bhd leased a specialised equipment from TL Bhd for five yearly instalments of RM30 million each payable at the end of each financial year. The equipment was completely installed and first operated on 1 July 2015. The fair value of the equipment as at that date was RM115 million. The equipment had an estimated useful life of 5 years with no residual value.

Hi-Way Bhd also leased a printing machine from SW Bhd on 1 July 2015 paying eight yearly instalments of RM208,000 each. The printing machine was acquired by SW Bhd on that date for RM1.28 million. The machinery had a useful life of 15 years with no residual value. SW Bhd would undertake all maintenance and repairs.

It is the company's policy to allocate the finance interest using the sum-of-digits method.

Required:

a) Explain the classification of the leases for the above two leasing arrangement in accordance with MFRS 117 Leases. (4 marks)

b) Prepare the Statement of Financial Position (extract) as at 30 June 2016 and 30 June 2017 in the books of Hi-Way Bhd. (6 marks)

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Part C

ABC Bhd is an oil exploratory company in South East Asia countries. Its financial year ends on 31 December and its annual reports are usually approved for publication three (3) months after the financial year ends.

On 15 of December 2016, one of its exploration exercise in Indonesia suffered an oil leak and contaminated 2 kilometres of the coastal area. Indonesia has no environmental regulation on contamination of its environment. However, the company is very well known as an advocate of environmental preservation and has an excellent track record of cleaning up all contamination that it causes. As at 31 December 2016, it is estimated that the clean-up of the contaminated coastal area would costs the company RM800,000.

Required:

Advise ABC Bhd whether it should treat the cost for cleaning the oil spill contamination as a 'provision' or a 'contingent liability' in order to comply with the requirements of MFRS 137 Provisions, Contingent Laibilities and Contingent Assets. (5 marks)

(Total : 30 marks)

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